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STATEMENT OF



C. I. GOULD, DEPUTY DIRECTOR  
FEDERAL PERSONNEL AND COMPENSATION DIVISION  
U. S. GENERAL ACCOUNTING OFFICE

BEFORE THE

SUBCOMMITTEE ON LEGISLATION AND NATIONAL SECURITY  
OF THE COMMITTEE ON GOVERNMENT OPERATIONS  
HOUSE OF REPRESENTATIVES

ON

H.R. 9701, "A BILL TO AMEND THE BUDGET AND ACCOUNTING PROCEDURES ACT OF 1950 TO REQUIRE THAT THE COMPTROLLER GENERAL PROVIDE FOR A FINANCIAL AUDIT WITH RESPECT TO PENSION PLANS FOR OFFICERS AND EMPLOYEES OF THE FEDERAL GOVERNMENT AND ITS AGENCIES AND INSTRUMENTALITIES, TO REQUIRE THAT AN ANNUAL REPORT, INCLUDING A FINANCIAL STATEMENT AND AN ACTUARIAL STATEMENT, BE FURNISHED TO THE CONGRESS AND THE COMPTROLLER GENERAL WITH RESPECT TO SUCH PLANS, AND FOR OTHER PURPOSES"

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

I AM PLEASED TO BE HERE TO PRESENT THE GENERAL ACCOUNTING OFFICE'S VIEWS ON H. R. 9701, A BILL TO REQUIRE THAT FEDERAL PENSION PLANS FILE ANNUAL FINANCIAL AND ACTUARIAL REPORTS SOMEWHAT SIMILAR TO THOSE NOW REQUIRED FOR PRIVATE PENSION PLANS BY THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974. MY STATEMENT, MR. CHAIRMAN, WILL GENERALLY BE A SUMMARIZATION OF THE CONTENTS OF THE COMPTROLLER GENERAL'S LETTER OF FEBRUARY 28, 1978, TO THE CHAIRMAN OF THE COMMITTEE ON GOVERNMENT OPERATIONS REGARDING THIS BILL.

THE GENERAL ACCOUNTING OFFICE FULLY ENDORSES THE PURPOSE OF H. R. 9701 WHICH IS TO ACHIEVE FULL, UNIFORM DISCLOSURE OF THE FINANCIAL CONDITION OF FEDERAL PENSION PLANS. WE HAVE LONG BEEN CONCERNED ABOUT THE FINANCIAL SOUNDNESS OF FEDERAL RETIREMENT SYSTEMS. BEGINNING IN 1974, WE HAVE ISSUED A SERIES OF REPORTS RELATED TO BASIC POLICIES, FINANCING, ADMINISTRATION, AND BENEFITS OF THE VARIOUS RETIREMENT PROGRAMS. FOR EXAMPLE, IN AN AUGUST 3, 1977, REPORT (FEDERAL RETIREMENT SYSTEMS; UNRECOGNIZED COSTS, INADEQUATE FUNDING, INCONSISTENT BENEFITS), WE REPORTED THAT THE ACTUAL COSTS OF FEDERAL RETIREMENT SYSTEMS ARE NOT BEING FULLY RECOGNIZED AND FULLY FUNDED.

THERE IS NO OVERALL POLICY FOR GUIDANCE IN ESTABLISHING, FINANCING, OR AMENDING FEDERAL RETIREMENT SYSTEMS. THE SYSTEMS' FUNDING REQUIREMENTS VARY, AND IN MOST CASES ARE LESS STRINGENT THAN THOSE IMPOSED BY LAW ON PRIVATE PENSION PLANS. SOME SYSTEMS PROVIDE FOR FULLY FUNDING BENEFITS AS THEY ACCRUE, SOME PROVIDE FOR PARTIAL FUNDING, AND SOME ARE COMPLETELY UNFUNDED. THE REPORTED UNFUNDED LIABILITIES FOR THREE MAJOR SYSTEMS GREW FROM \$157 BILLION IN 1970 TO \$274 BILLION IN 1976, AN INCREASE OF 75 PERCENT. UNDER EXISTING FUNDING PROVISIONS, THE UNFUNDED LIABILITIES WILL CONTINUE TO GROW.

THE CONGRESS DOES NOT PRESENTLY RECEIVE REALISTIC AND CONSISTENT INFORMATION ON THE COST OF FEDERAL RETIREMENT PROGRAMS, THUS IMPAIRING ITS ABILITY TO MAKE SOUND FISCAL AND LEGISLATIVE

DECISIONS ON ESTABLISHING, AMENDING, AND FUNDING RETIREMENT AND AGENCY PROGRAMS. THE COSTS AND LIABILITIES OF FEDERAL RETIREMENT PROGRAMS ARE MUCH GREATER THAN RECOGNIZED BY CURRENT COSTING AND FUNDING PROCEDURES. USUALLY, LITTLE OR NO CONSIDERATION IS GIVEN TO THE EFFECT OF GENERAL PAY INCREASES AND ANNUITY COST-OF-LIVING ADJUSTMENTS ON ULTIMATE BENEFIT PAYMENTS, RESULTING IN A CONSIDERABLE UNDERSTATEMENT OF BENEFIT COSTS ACCRUING EACH YEAR. BASED ON ESTIMATES DEVELOPED BY THE OFFICE OF MANAGEMENT AND BUDGET, UNRECOGNIZED RETIREMENT COSTS ACCRUING IN 1976 AMOUNTED TO AN ESTIMATED \$5.3 BILLION FOR THE CIVIL SERVICE RETIREMENT SYSTEM ALONE. THE AMOUNT IS ESTIMATED TO INCREASE TO \$6.1 BILLION IN 1979. IN SOME FEDERAL RETIREMENT PROGRAMS, SUCH AS THE UNIFORMED SERVICES SYSTEM, NONE OF THE CURRENTLY ACCRUING COST IS RECOGNIZED AND ALL BENEFITS ARE FINANCED ON A PAY-AS-YOU-GO BASIS.

IN THAT REGARD, ON JUNE 26, 1978, THE SENATE PASSED A RESOLUTION (S. RES-244) REQUIRING A STUDY OF THE MAJOR FEDERAL RETIREMENT SYSTEMS, USING DYNAMIC ASSUMPTIONS, TO DETERMINE THE EXTENT OF THE PRESENT AND FUTURE UNFUNDED LIABILITY OF EACH SYSTEM, THE METHOD OF FINANCING EACH SYSTEM, AND THE ACTIONS NECESSARY TO BE TAKEN TO INSURE THE SOLVENCY OF EACH SYSTEM. THE STUDY IS TO BE MADE BY THE SECRETARY OF THE TREASURY, AND A REPORT, INCLUDING RECOMMENDATIONS FOR LEGISLATION, IS REQUIRED TO BE MADE TO THE CONGRESS BY DECEMBER 20, 1979.

H. R. 9701 WOULD (1) REQUIRE THAT EACH FEDERAL GOVERNMENT PENSION PLAN FURNISH AN ANNUAL REPORT OF ITS FINANCIAL CONDITION TO THE CONGRESS AND THE COMPTROLLER GENERAL NO LATER THAN 210 DAYS

AFTER THE END OF THE PLAN YEAR, (2) DIRECT THE COMPTROLLER GENERAL TO PRESCRIBE THE CONTENT OF THOSE ANNUAL REPORTS AND TO REVIEW EACH PLAN'S FINANCIAL AND ACTUARIAL STATEMENTS, AND (3) ESTABLISH A BOARD OF GOVERNMENT ACTUARIES TO PRESCRIBE ACTUARIAL REPORTING STANDARDS AND TO REVIEW AND APPROVE THE ACTUARIAL ASSUMPTIONS AND METHODOLOGY USED BY EACH FEDERAL PENSION PLAN AND BY THE SOCIAL SECURITY AND RAILROAD RETIREMENT SYSTEMS.

WE ARE IN GENERAL AGREEMENT WITH THE BILL'S PROPOSED REPORTING REQUIREMENTS FOR FEDERAL PENSION PLANS AND WITH THE PROPOSED DUTIES AND RESPONSIBILITIES OF THE BOARD OF GOVERNMENT ACTUARIES. IN ADDITION, THE BILL'S PROVISION REQUIRING THE COMPTROLLER GENERAL TO PRESCRIBE THE REPORTING REQUIREMENTS FOR FEDERAL PENSION PLANS WOULD BE CONSISTENT WITH OUR STATUTORY RESPONSIBILITIES FOR PRESCRIBING ACCOUNTING PRINCIPLES AND STANDARDS FOR FEDERAL AGENCIES AND APPROVING AGENCIES' ACCOUNTING SYSTEMS.

WE DO BELIEVE SOME CHANGES SHOULD BE MADE TO THE OTHER DUTIES PROPOSED TO BE ASSIGNED TO THE COMPTROLLER GENERAL UNDER THE BILL. SECTION 122 (1), WHICH WOULD REQUIRE THE COMPTROLLER GENERAL TO REVIEW ALL PENSION PLANS' REPORTS EACH YEAR, WOULD REDUCE OUR FLEXIBILITY TO ASSIGN OUR AUDIT RESOURCES TO THE HIGHEST PRIORITY NEEDS OF THE CONGRESS. WE WOULD STRONGLY PREFER TO REVIEW THE PLANS' STATEMENTS FROM TIME TO TIME DURING THE NORMAL COURSE OF OUR WORK AND REPORT OUR FINDINGS TO THE CONGRESS. ALSO, WE BELIEVE IT WOULD BE MORE APPROPRIATE FOR THE FEDERAL AGENCIES THAT ADMINISTER PENSION

PLANS TO PROVIDE FOR AND APPROVE APPOINTMENTS OF PLANS' INDEPENDENT, QUALIFIED PUBLIC ACCOUNTANTS RATHER THAN THE COMPTROLLER GENERAL AS REQUIRED BY SECTION 122(3). ADDITIONALLY, SECTION 123(A), WHICH WOULD INCLUDE A REPRESENTATIVE FROM THE GENERAL ACCOUNTING OFFICE ON THE BOARD OF GOVERNMENT ACTUARIES, MIGHT ADVERSELY AFFECT OUR ABILITY TO INDEPENDENTLY AND OBJECTIVELY REVIEW THE ADEQUACY OF THE BOARD'S ACTUARIAL OVERSIGHT.

WE HAVE DEVELOPED SOME PRELIMINARY ESTIMATES OF WHAT IT MIGHT COST THE GENERAL ACCOUNTING OFFICE EACH YEAR TO IMPLEMENT ITS REQUIRED FUNCTIONS UNDER THE BILL. WE ESTIMATE THESE COSTS TO BE \$1 MILLION FOR THE NECESSARY AUDIT WORK; \$1 MILLION FOR ACTUARIAL WORK; AND \$.5 MILLION FOR PRESCRIBING REPORTING STANDARDS AND FORMATS. THIS TOTAL OF \$2.5 MILLION WOULD APPLY FOR THE FIRST FEW YEARS AFTER THE BILL'S ENACTMENT AND SHOULD SUBSTANTIALLY DECREASE LATER TO PERHAPS \$1 MILLION A YEAR. THESE ESTIMATES ARE BASED ON THE ASSUMPTION THAT SOME 38 SEPARATE RETIREMENT PROGRAMS WOULD BE COVERED BY THE BILL.

THERE ARE SEVERAL OTHER ASPECTS OF H. R. 9701 WHICH THIS SUBCOMMITTEE MAY WISH TO RECONSIDER.

THE PROPOSED MEMBERSHIP OF THE BOARD OF GOVERNMENT ACTUARIES DOES NOT INCLUDE A REPRESENTATIVE FROM THE DEPARTMENT OF TREASURY. SINCE TREASURY PERFORMS ACTUARIAL SERVICES FOR SEVERAL FEDERAL RETIREMENT SYSTEMS, IT PERHAPS SHOULD BE REPRESENTED ON THE BOARD. THE BILL PROVIDES THAT THE TERMS OF EACH OF THE SEVEN BOARD

MEMBERS WOULD BEGIN AT THE SAME TIME AND BE 3 YEARS IN DURATION. WE BELIEVE THAT STAGGERED TERMS WOULD BE MORE DESIRABLE FOR CONTINUITY PURPOSES, ESPECIALLY THOSE OF THE PUBLIC BOARD MEMBERS. ALSO, THE PROVISION THAT FIVE MEMBERS OF THE BOARD SHALL CONSTITUTE A QUORUM SHOULD PERHAPS BE MODIFIED TO ALSO REQUIRE THAT AT LEAST ONE OF THE FIVE BE A PUBLIC MEMBER.

THE REPORTING REQUIREMENTS OF H. R. 9701 WOULD NOT APPLY TO THE SOCIAL SECURITY AND RAILROAD RETIRMENT SYSTEMS, BUT THOSE SYSTEMS WOULD BE SUBJECT TO OVERSIGHT BY THE BOARD OF GOVERNMENT ACTUARIES. SINCE THE DISTRICT OF COLUMBIA'S POLICE AND FIREMEN'S RETIREMENT SYSTEM COVERS ABOUT 1,500 FEDERAL EMPLOYEES OF THE UNITED STATES, PARK POLICE AND SECRET SERVICE, WE BELIEVE THAT IT SHOULD ALSO BE SUBJECT TO THE BOARD'S ACTUARIAL REVIEWS. ALSO, LEGISLATION IS NOW PENDING IN THE CONGRESS THAT WOULD, AMONG OTHER THINGS, PROVIDE FEDERAL FUNDS TO ASSIST THE DISTRICT IN MEETING THE COSTS OF ITS THREE RETIREMENT PROGRAMS FOR POLICE AND FIREMEN, TEACHERS, AND JUDGES. AS LONG AS FEDERAL EMPLOYEES OR FEDERAL FUNDS ARE ASSOCIATED WITH THE DISTRICT'S RETIREMENT SYSTEMS, WE BELIEVE THAT THE PROPOSED BOARD SHOULD REVIEW THOSE SYSTEMS' ACTUARIAL ASSUMPTIONS AND METHODOLOGY.

I APPRECIATE THE OPPORTUNITY TO PRESENT TO THIS SUBCOMMITTEE OUR VIEWS ON H.R. 9701. I HOPE THAT OUR COMMENTS WILL ASSIST YOU IN CONSIDERING THE IMPORTANT MATTER OF ACHIEVING IMPROVED VISIBILITY OF FEDERAL PENSION COSTS.

THIS CONCLUDES MY STATEMENT, MR. CHAIRMAN. I AND MY ASSOCIATES WILL BE PLEASED TO ANSWER QUESTIONS.